

Message Text

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ORIGIN NEA-10

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FM SECSTATE WASHDC
TO AMEMBASSY NEW DELHI

C O N F I D E N T I A L STATE 050289

E.O. 11652: GDS

TAGS: EAID, IN

SUBJECT:IDA LENDING TO INDIA

REF: NEW DELHI 2899

1. AS SEPTELS REPORTING DISCUSSIONS WITH INDIAN EMBASSY OFFICERS INDICATE, NUB OF PROBLEM ON IDA V WITH REGARD TO INDIA IS STRONGLY HELD VIEW BY A NUMBER OF KEY MEMBERS OF CONGRESS THAT 40 PERCENT SHARE ALLOTTED TO INDIA IS TOO LARGE FOR ANY ONE COUNTRY. IN ADDITION, INDIAN SHARE MAKES IT DIFFICULT FOR IDA TO EXPAND LENDING TO NUMBER OF COUNTRIES OF SOUTHERN AFRICA AND EGYPT WHOSE DEBT SERVICE RATIO IS FAR LESS FAVORABLE THAN INDIA'S AND YET WHOSE CURRENT SHARE OF IDA IN THE TOTAL IBRD/IDA LENDING PROGRAM TO THEM IS FAR LOWER THAN INDIA'S.

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2. ADMINISTRATION IS PRESSING TO OBTAIN FULL U.S. SHARE OF IDA V (CURRENTLY PROJECTED TO BE 2.4 BILLION DOLLARS OR ONE-THIRD OF IDA FUNDING FROM TRADITIONAL DONORS) AND ALSO TO PAY UP 805 MILLION DOLLARS STILL OWED ON IDA IV PLEDGE. NEGATIVE HILL REACTION TO BERGSTEN'S STRONG DEFENSE OF 40 PERCENT SHARE FOR INDIA IN FEBRUARY 17 HEARING BEFORE

LONG SUBCOMMITTEE HAS CAUSED US TO CONCLUDE THAT WE RUN RISK OF JEOPARDIZING THE ENTIRE IDA APPROPRIATION IF WE REFUSE TO SHOW FLEXIBILITY ON QUESTION OF INDIA'S SHARE. FOR THIS REASON, WE JUDGED THAT PROPOSAL TO REVIEW OVERALL IDA LENDING PATTERN WHICH WAS DISCUSSED AT RECENT PARIS MEETING WAS ONLY PRUDENT COURSE AVAILABLE TO US.

3. IN PARIS, U.S. DID NOT PUT OUT NEW SET OF FIGURES, BUT DID SUGGEST THAT INDIA MIGHT CONSIDER HEAVIER UTILIZATION OF BANK FUNDS. IN ANY CASE, WE FEEL MAIN POINT IS--AND INDIANS SO FAR HAVE MISSED THIS--THAT A FULL IDA V REPLENISHMENT, EVEN WITH A REDUCED SHARE FOR INDIA, COULD RESULT IN SUBSTANTIALLY LARGER AID INFLOWS FOR INDIA. THUS, THE INDIANS SHOULD NOT BE

THE LOSERS, BUT THE GAINERS FROM A SUCCESSFUL REPLENISHMENT, EVEN IF THEIR SHARE OF THE LARGER PIE IS LESS THAN UNDER IDAIV. FURTHERMORE, WE THINK THE FLOW OF COMBINED IBRD/IDA RESOURCES TO INDIA IS ALSO RELEVANT, NOT JUST THE FLOW OF CONCESSIONAL IDA FUNDS, AND WE WOULD HOPE THE INDIANS WOULD PLACE ANY REDUCTION OF THEIR IDA SHARE IN THIS BROADER PERSPECTIVE.

4. IN TALKING WITH MANMOHAN SINGH, WE RECOMMEND THAT YOU STRESS THESE LATTER POINTS. IN ADDITION, WE WOULD LIKE YOU TO EMPHASIZE THAT THE INDIANS ARE WRONG IN CONCLUDING, AS MANMOHAN SINGH SEEMED TO BE DOING, THAT WE WERE CARRYING OVER OUR BILATERAL AID CONSTRAINTS TO CONFIDENTIAL

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THE MULTILATERAL FORUM. THIS IS A MISREADING OF WHAT HAS HAPPENED. HOWEVER, YOU SHOULD MENTION, AS ATHERTON DID, THAT FAST MOVING SITUATION MEANT THAT WE WERE UNABLE TO KEEP INDIANS FULLY INFORMED AND THEY WERE CAUGHT BY SURPRISE ON SHIFT IN USG STANCE.

5. WE ARE OF COURSE AWARE OF THE NEED TO KEEP THE IDA V PROBLEM OUT OF THE INDIAN ELECTION CAMPAIGN AND WILL DEVISE OUR TACTICS ACCORDINGLY. A DONORS MEETING IS SCHEDULED FOR MARCH 14 IN VIENNA AND WE WILL SEEK TO KEEP ANY DISCUSSION OF ISSUE IN LOW KEY.

6. ON THE RELATED QUESTION OF BILATERAL AID, YOU CAN TELL MANMOHAN SINGH THAT WE HAVE NOTED INDIAN EXPRESSIONS OF INTEREST AND ARE REVIEWING THIS QUESTION INTERNALLY. IF MANMOHAN SINGH WANTS TO DISCUSS THE IDA AND BILATERAL ASSISTANCE QUESTIONS, AND ALSO EXCHANGE VIEWS INFORMALLY ON THE WHOLE RANGE OF PENDING NORTH-SOUTH ISSUES, WE WOULD BE HAPPY TO HAVE HIM COME TO WASHINGTON IF WE CAN

FIND MUTUALLY SATISFACTORY DATE. WE HAD EXPECTED TO

DISCUSS THESE ISSUES WITH HIM IN APRIL DURING THE
NOW-POSTPONED ECONOMIC SUBCOMMISSION MEETING, BUT IT
MIGHT BE USEFUL IN TERMS OF OUR DIALOGUE ON NORTH-SOUTH
QUESTIONS, AS WELL AS IN THE INTEREST OF CLARIFYING WHERE
THINGS STAND ON ECONOMIC ASSISTANCE MATTERS, FOR HIM
TO COME ANYWAY.

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